Report of Independent Auditors

The Commissioners
Missouri Housing Development Commission

We have audited the accompanying balance sheets of the Missouri Housing Development Commission (a body corporate and politic of the state of Missouri) as of June 30, 1998 and 1997, and the statements of revenues and expenses and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Missouri Housing Development Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Housing Development Commission at June 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in *Note 2* to the financial statements, in 1997 the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

In accordance with *Government Auditing Standards*, we have also issued a report dated August 28, 1998 on our consideration of the Missouri Housing Development Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Ernst + Young LLP

W. Henry Coghill

Kansas City, Missouri
August 28, 1998

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Missouri Housing Development Commission

Balance Sheets
(In Thousands)

	June 30	
	1998	**1997**
Assets		
Cash and temporary cash investments *(Notes 2 and 7)*	**$ 9,513**	$ 16,507
Investments *(Notes 2 and 7)*:		
Investment agreements	**258,681**	209,699
Securities purchased under agreements to resell	**12,757**	4,990
U.S. government and agency securities	**128,588**	133,799
	400,026	348,488
Mortgage investments *(Notes 2 and 3)*:		
Mortgage and construction loans receivable, net of allowance for loan losses ($9,989 in 1998 and $7,754 in 1997)	**336,299**	383,719
GNMA and FannieMae mortgage-backed securities	**855,382**	721,877
	1,191,681	1,105,596
Other assets:		
Accrued interest receivable *(Notes 2 and 7)*	**12,691**	12,436
Deferred financing charges *(Note 2)*	**19,685**	12,303
Property and equipment *(Note 2)*	**1,432**	1,321
Rental property *(Note 2)*	**1,808**	1,808
Accounts receivable, other	**1,031**	1,339
	36,647	29,207
Total assets	**$1,637,867**	$1,499,798
Liabilities and fund balances		
Liabilities:		
Bonds payable *(Notes 4 and 7)*	**$1,312,904**	$1,214,053
Accrued interest payable	**23,799**	22,787
Escrow deposits *(Notes 5 and 7)*	**30,307**	28,281
Rent subsidies payable *(Note 5)*	**2,427**	1,173
Accounts payable	**2,641**	2,350
Deferred financing and commitment fees *(Note 2)*	**10,221**	10,998
Total liabilities	**1,382,299**	1,279,642
Fund balances *(Note 7)*:		
Restricted by the Commission, bond resolution and state statute	**208,801**	213,348
Designated for net unrealized gains	**14,625**	–
Unrestricted fund balance	**32,142**	6,808
Total fund balances	**255,568**	220,156
Total liabilities and fund balances	**$1,637,867**	$1,499,798

See accompanying notes.

Missouri Housing Development Commission

Statements of Revenues and Expenses and Changes in Fund Balances

(In Thousands)

	Year ended June 30	
	1998	**1997**
Revenues:		
Income – mortgage investments	**$109,305**	$ 87,547
Income – investments	**22,604**	21,460
Financing fees and other	**5,743**	5,428
Federal assistance and grants *(Note 2)*	**46,198**	45,743
Total revenues	**183,850**	160,178
Expenses:		
Interest on bonds	**82,920**	81,363
Bank miscellaneous bond debt expense	**4,850**	4,520
Salaries *(Note 2)*	**2,624**	2,521
Administrative expenses	**2,546**	2,604
Provision for loan and real estate owned losses	**2,520**	2,320
Rent subsidy payments	**3,231**	3,764
Housing Trust Fund grants	**3,217**	1,727
(Gain) loss on extinguishment of debt, net	**332**	(17)
Federal assistance and grants *(Note 2)*	**46,198**	45,743
Total expenses	**148,438**	144,545
Revenues over expenses	**35,412**	15,633
Fund balances, beginning of year, as restated *(Note 2)*	**220,156**	204,523
Fund balances, end of year	**$255,568**	$220,156

See accompanying notes.

Missouri Housing Development Commission

Statements of Cash Flows

(In Thousands)

	Year ended June 30	
	1998	**1997**
Operating activities		
Revenues over expenses	**$ 35,412**	$ 15,633
Adjustments to reconcile revenues over expenses to net cash provided by operating activities:		
Income – mortgage investments	**(109,305)**	(87,547)
Income – investments	**(22,604)**	(21,460)
Amortization of financing charges and debt premium/discount	**(7,985)**	(5,802)
Provision for loan and real estate owned losses, net of charged-off loans	**2,304**	2,174
Interest expense related to bonds	**82,920**	81,363
Repayment of principal on mortgage loans	**198,515**	144,310
Mortgage and construction loans disbursed	**(265,816)**	(198,022)
Interest received on mortgage investments	**87,950**	86,915
U.S. Department of Housing and Urban Development grants and state grants:		
Receipts and related investment income	**45,892**	45,091
Disbursements and related administrative costs	**(44,638)**	(45,144)
Changes in assets and liabilities:		
Decrease in accounts receivable, other	**240**	599
Increase (decrease) in escrow deposits	**2,026**	(1,102)
Increase in accounts payable	**291**	188
Decrease in deferred financing and commitment fees, net of amortization	**(777)**	(1,202)
Net cash provided by operating activities	**4,425**	15,994
Noncapital financing activities		
Repayment of principal on bonds	**(174,580)**	(149,807)
Net proceeds from issuance of bonds	**274,034**	196,191
Interest paid on bonds	**(81,908)**	(80,039)
Net cash provided by (used in) noncapital financing activities	**17,546**	(33,655)
Capital financing activities		
(Increase) decrease in property and equipment	**(112)**	256
Net cash provided by (used in) capital financing activities	**(112)**	256

Missouri Housing Development Commission

Statements of Cash Flows (continued)

(In Thousands)

	Year ended June 30	
	1998	**1997**
Investing activities		
Proceeds from sale of investments	**$682,314**	$521,883
Purchase of investments	**(725,099)**	(523,370)
Income received on investments	**21,699**	20,250
Increase in securities purchased under agreements to resell	**(7,767)**	(1,411)
Net cash provided by (used in) investing activities	**(28,853)**	17,352
Decrease in cash and cash equivalents	**(6,994)**	(53)
Cash and cash equivalents, beginning of year	**16,507**	16,560
Cash and cash equivalents, end of year	**$ 9,513**	$ 16,507

See accompanying notes.

1. Authorizing Legislation

The Missouri Housing Development Commission (the Commission) is a body corporate and politic established on October 13, 1969 by Chapter 215 of the Missouri statutes. In accordance with the provisions of Chapter 215 and resolutions of the Commission, the Commission is authorized to make or purchase mortgage loans which are uninsured, partially insured, or insured or guaranteed by the federal government and to insure mortgage loans, the funds of which are to be used to develop new or rehabilitated low- and moderate-income housing. The Commission is also authorized to issue bonds for making or purchasing such loans. The outstanding balance of bonds applicable to loans not insured or guaranteed by a federal agency or to bonds rated lower than “AA” by rating agencies at the time of issuance shall not exceed $200,000,000. At June 30, 1998, the Commission has $3,000,000 of bonds outstanding applicable to loans that are not so insured or guaranteed or to bonds that are not so rated. Bonds issued by the Commission are not a debt of the state of Missouri.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Commission maintains its financial records on the accrual basis of accounting. Pursuant to the requirements of the Governmental Accounting Standards Board (GASB), the Commission is considered a related organization of the state of Missouri for financial reporting purposes. Accordingly, the Commission is included as a footnote disclosure in the state of Missouri’s comprehensive annual financial report. The Commission has elected not to apply the pronouncements of the Financial Accounting Standards Board issued after November 30, 1989 as prescribed by GASB Statement No. 20.

Certain amounts within the 1997 financial statements have been reclassified to conform with the 1998 presentation.

Cash and Investment Policies

Chapter 215 of the Missouri statutes provides for the Commission to invest any funds not required for immediate disbursement in obligations of the state of Missouri or the United States government or any instrumentality thereof, the principal and interest of which are guaranteed by the state of Missouri or the United States government or instrumentality

2. Summary of Significant Accounting Policies (continued)

thereof; bank certificates of deposit; or such other investments as determined by the Commission. The general policy of the Commission is to make investments for future funding requirements and not for trading purposes.

During the current year, the Commission adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires that investments be reported at fair value with gains and losses reported as revenue. In accordance with this statement, the prior year financial statements have been restated to reflect this change in accounting principle. Valuing securities at fair value decreased fund balance by $9,436,000 at June 30, 1996. During fiscal year 1997, income from mortgage-backed securities and income from investments include appreciation of fair value of $318,000 and $1,740,000, respectively. During the current year, income from mortgage-backed securities and income from investments include appreciation in fair value of $21,019,000 and $986,000, respectively.

Securities purchased under agreements to resell, U.S. government and agency securities, and mortgage-backed securities are reported at fair value as determined by the investment custodians utilizing prices quoted by securities dealers or brokers, investment bankers or statistical services on the valuation date.

Cash and Temporary Cash Investments

At June 30, 1998 and 1997, $4,614,000 and $10,021,000 were held in money management accounts which earned interest at rates from 5.00% to 5.29% and 5.19% to 5.33%, respectively. Bank certificates of deposit of $6,355 earning 9.65% interest and $290,000 earning 9.65% interest were held at June 30, 1998 and 1997, respectively. At June 30, 1998 and 1997, the total carrying amount of the Commission's deposits was $9,513,000 and $16,507,000, and the bank balances were $10,415,000 and $17,295,000, respectively. Of the bank balance, at June 30, 1998 and 1997, $5,991,000 and $14,625,000, respectively, were insured by the Federal Deposit Insurance Corporation. Of the uninsured balance in cash and temporary cash investments, $4,424,000 and $2,670,000 at June 30, 1998 and 1997, respectively, were collateralized by unregistered pledged securities held by the pledging financial institution or by its Trust Department or agent, but not in the Commission's name. Cash and temporary cash investments are classified as cash and cash equivalents for purposes of the statements of cash flows.

2. Summary of Significant Accounting Policies (continued)

Investment Agreements

For bond issues originating after March 15, 1983, the Commission has authorized and directed the investment of funds with certain financial institutions. The total amount of funds invested in these agreements at June 30, 1998 and 1997 was $258,681,000 and $209,699,000, respectively, with guaranteed fixed rates of return ranging from 5.25% to 9.2% and 5.375% to 9.65%, respectively. At June 30, 1998 and 1997, investment agreements of $51,195,000 and $31,332,000, respectively, were collateralized by the banks with U.S. government or U.S. government agency obligations. Pursuant to the investment agreements between the Commission and the banks, investment agreements of $207,486,000 and $178,367,000 were uncollateralized at June 30, 1998 and 1997, respectively. The investment agreements have redemption terms that do not consider market rates, and income is based on contractual interest rates; accordingly, these agreements are reported at cost.

Securities Purchased Under Agreements to Resell

Investments in securities purchased under agreements to resell are carried at fair value. At June 30, 1998 and 1997, these agreements had an average interest rate of approximately 5% and were collateralized by the banks with U.S. government or U.S. government agency obligations.

U.S. Government and Agency Securities

Investments in U.S. government and agency securities are carried at fair value. At June 30, 1998 and 1997, securities approximating $21,146,000 and $30,190,000, respectively, were unregistered, maintained in book entry form in the trustees' accounts at the Federal Reserve and identified in the internal records of the trustees in the name of the Commission. At June 30, 1998 and 1997, securities totaling $107,442,000 and $103,609,000, respectively, were insured or registered in the Commission's name.

2. Summary of Significant Accounting Policies (continued)

Mortgage Investments

Proceeds from the sale of bonds are used to make or purchase mortgage loans and to purchase Government National Mortgage Association (GNMA) and FannieMae loan mortgage-based securities. Advances made on such loans during the construction period of related housing units are recorded as construction loans and are transferred to mortgage loans upon final endorsement after construction completion. Mortgage and construction loans are reported at cost, and GNMA and FannieMae mortgage-backed securities are reported at fair value. Mortgage-backed securities do not have a contractual maturity date, and the Commission may be subject to the risk of prepayment on these securities.

Allowance for Loan Losses

The allowance for loan losses is for uninsured loans and related accrued interest on such loans. The allowance is management's estimate of uncollectible loans and related accrued interest and is based on existing payment conditions, prior experience and such other factors which, in management's opinion, require consideration.

Deferred Financing Charges

Costs of issuance of bonds are deferred and amortized over the life of the related issue using the outstanding bond method, which approximates the effective interest method.

Property and Equipment

Property and equipment consist of office furniture and equipment recorded at cost when acquired and, upon disposition, are relieved at cost.

Rental Property

Two rental properties have been acquired and rehabilitated for rental to persons or families of low income. These properties were recorded at cost when acquired and, upon disposition, will be relieved at cost.

2. Summary of Significant Accounting Policies (continued)

Deferred Financing and Commitment Fees

Financing fees are deferred and recorded as income over the life of the related bond issuance, which approximates the life of the related mortgage loans.

Federal Assistance and Grants

The Commission administers grants and federal assistance programs, representing “pass-through” financial assistance, on the behalf of secondary recipients. In accordance with GASB Statement No. 24, “Accounting and Financial Reporting for Certain Grants and Other Financial Assistance,” the Commission recognizes financial activity related to pass-through grants and financial assistance as revenues and expenses of the Commission.

3. Description of Funds or Programs

The following describes the funds or programs maintained by the Commission, all of which conform with the statute and the respective bond resolutions.

Operating Fund

Funding of the Operating Fund on an ongoing basis is derived principally from allowable transfers from other funds, fees earned under the Housing Assistance Payments Program, administered under Section 8 of the Housing and Community Development Act, and interest income from investments and mortgage loans. Mortgage and construction loans in the Operating Fund are insured by HUD or guaranteed by the Veterans Administration (VA) except for approximately $47,243,000 and $39,400,000 at June 30, 1998 and 1997, respectively, of uninsured loans net of allowance for loan losses made under the Commission’s various special housing programs. These mortgages are collateralized by deeds of trust on the related properties. Included within the Operating Fund is the Tenant Assistance Program, established for the purpose of subsidizing low-income housing. Authorized activities of the Operating Fund include the following:

- Payment of general and administrative expenses and other costs not payable by other funds of the Commission

3. Description of Funds or Programs (continued)

- Financing multifamily or single-family residential housing units from accumulated fund balances, if financing of such units is not provided for under existing bond indentures

- Those activities deemed necessary to fulfill the Commission's corporate purposes for which special funds are not established

Multifamily Mortgage Program

The Commission's Multifamily Mortgage Program was established to account for the proceeds from the bond sales, debt service requirements, and the related mortgage loans and mortgage-backed securities on eligible multifamily and nursing home developments. All loans, with the exception of $16,946,000 being financed with the proceeds from the issuance of the Rental Housing Revenue bonds payable (Ecumenical Projects, Longfellow Heights, Primm Place, Truman Farms and Brookstone), are insured by HUD. The Ecumenical Projects, Primm Place, Truman Farms and Brookstone, which totaled $14,257,000 at June 30, 1998, are financed by the borrowers with limited obligation bonds which are denoted by "**" in *Note 4*.

Single-Family Mortgage Program

The Commission's Single-Family Mortgage Program was established to account for the proceeds from the sale of bonds, debt service requirements and the related mortgage loans and mortgage-backed securities on eligible single-family housing units. All loans are either insured by the Federal Housing Administration or qualified private mortgage insurers or guaranteed by the VA.

4. Bonds Payable

The net proceeds of bond issues are used to provide financing for multifamily housing projects or for single-family residential housing units. The bond proceeds are deposited with and invested by various bank trust departments in qualified investments until required for such financing. These bonds are obligations of the Commission and are not liabilities of the state of Missouri. A summary of bonds payable outstanding at June 30, 1998 and 1997 follows:

Bonds Payable	Original Amount Authorized	Outstanding June 30 1998	Outstanding June 30 1997
	(In Thousands)		
Multifamily Mortgage Program:			
December 1, 1971 Series (5.85% to 6%), due 1999–2015	$ 12,875	**$ 3,955**	$ 4,105
July 1, 1975 Series (7.5% to 8%), due 1999–2019	10,465	**6,835**	6,985
May 1, 1976 Series (6.1% to 8%), due 1999–2019	11,800	**3,520**	6,360
October 15, 1976 Series (5.8% to 6%), due 1999–2020	30,000	**20,645**	21,090
March 15, 1977 Series (5.75% to 6%), due 1999–2020	30,000	**14,795**	16,660
January 15, 1978 Series (5.6% to 5.75%), due 1999–2022	35,000	**22,080**	24,375
July 15, 1978 Series (6.3% to 6.6%), due 1999–2022	45,000	**28,310**	32,205
1979 Series A (6.4% to 7%), due 1999–2022	32,400	**17,415**	25,345
1979 Series B (6.4% to 7%), due 1999–2023	43,500	**27,695**	28,095
September 1, 1980 Series (9.625% to 10%), due 2007–2024	15,500	**4,250**	4,285
May 15, 1982 Series (9%), due 1999–2023	7,000	**3,465**	3,510
September 1, 1984 Series (10% to 11.25%), due 1999–2026	13,080	**1,034**	1,007
December 1, 1985 Series (8.4% to 9%), due 1999–2027	2,370	**1,485**	1,500
Justin Place Bonds, Series 1986B (7.125% to 8.5%), due 2002–2028	1,500	**–**	1,315
Lucas Heights Bonds, Series 1986E (7.125% to 7.875%), due 2002–2028	6,925	**–**	6,530

4. Bonds Payable (continued)

Bonds Payable	Original Amount Authorized	Outstanding June 30 1998	1997
		(In Thousands)	
Multifamily Mortgage Program (continued):			
Grandview Heights Bonds, Series 1986F (7.125% to 8.5%), due 2002–2028	$ 1,871	**$ –**	$ 1,716
June 1, 1988 Series (7.5% to 8.5%), due 1999–2029	3,905	**3,360**	3,415
June 1, 1989 Series A (6.75% to 7.375%), due 2000–2031*	965	**930**	940
September 1, 1989 Series (9.25%), due 2031	1,845	**1,715**	1,735
March 1, 1991 Series (10%), due 2031	1,685	**1,655**	1,660
June 15, 1992 Series (5.35% to 6.6%), due 1999–2024	10,240	**9,555**	9,705
November 15, 1992 Series 5% to 6.6%), due 1999–2025	43,340	**37,315**	40,765
Boulevard Associates Bonds, Series 1994A (4.05% to 5.7%), due 1999–2027	4,150	**4,000**	4,050
1995 Series A (4% to 6.25%), due 1999–2018**	2,825	**2,825**	2,825
1995 Series B (4.7%), due 1998**	1,395	**–**	1,395
November 15, 1996 Series (7.1% to 8.05%), due 2007–2038	3,540	**3,525**	3,540
Series 1996 (4.5% to 5.8%), due 1999–2010**	1,435	**1,345**	1,395
1996 Series A (5.75% to 6.2%), due 2012–2028**	7,700	**7,700**	7,700
1996 Series B (6.6%), due 2003**	250	**250**	250
1996 Series A (5.25% to 6.2%), due 2007–2029**	8,400	**8,400**	8,400
Series 1998 (3.9% to 5.45%), due 1999–2028	9,045	**9,045**	–
	400,006	**247,104**	272,858
Less – unamortized debt discount		**(807)**	(1,082)
		246,297	271,776
Single-Family Mortgage Program:			
June 15, 1976 Series (6.375%), due 2008	28,175	**4,750**	5,065
August 15, 1978 Series (6.3%), due 2011	28,050	**6,260**	7,240
January 15, 1979 Series (6.875%), due 2011	28,100	**–**	10,305
May 15, 1979 Series (6.6%), due 2011	66,815	**–**	22,670
April 1, 1985 Series (8.90% to 9.375%), due 1999–2016	100,000	**7,610**	11,280
1986 Series A (9%), due 2018*	19,970	**2,960**	4,110

4. Bonds Payable (continued)

Bonds Payable	Original Amount Authorized	Outstanding June 30 1998	1997
		(In Thousands)	
Single-Family Mortgage Program (continued):			
September 1, 1986 Series (6.8% to 7.5%), due 1999–2017	$ 9,925	**$ 3,445**	$ 4,065
November 1, 1986 Series (6.8% to 7.6%), due 1999–2018*	100,000	**30,390**	38,485
July 15, 1987 Series (7.3% to 8.65%), due 1999–2010	10,000	**1,941**	2,319
1988 Series A (7.3% to 8.3%), due 1999–2019*	76,200	**27,460**	31,705
1988 Series B (7.3% to 8.25%), due 1999–2019*	37,500	**9,935**	12,810
1988 Series C (7.3% to 8.25%), due 1999–2019*	37,500	**11,560**	14,340
1989 Series A (7% to 7.9%), due 1999–2021*	85,000	**32,630**	37,630
1989 Series B (6.95% to 7.625%), due 1999–2021*	50,000	**18,870**	23,960
1990 Series A (6.7% to 7.625%), due 1999–2022*	50,000	**21,660**	24,120
1990 Series B (6.6% to 7.75%), due 1999–2022*	85,000	**30,720**	36,680
1991 Series A (6.1% to 7.375%), due 1999–2024*	140,000	**79,630**	90,200
September 1, 1991 Series A (8.6%), due 2006	40,600	**1,595**	6,165
September 1, 1991 Series B (7% to 7.25%), due 2011–2013	18,200	**20,057**	19,723
1991 Series B (5.75% to 6.3%), due 1999–2003*	12,000	**3,780**	4,950
1991 Series C (6.35% to 7.35%), due 2008–2024*	53,485	**29,282**	32,501
1992 Series A (5.5% to 6.75%), due 1999–2024*	75,000	**37,250**	40,870
1992 Series B (5% to 6.4%), due 1999–2025*	75,000	**54,585**	60,280
1994 Series A (5.6% to 7.3%), due 1999–2026*	100,000	**45,080**	50,480
1995 Series A (4.55% to 6.22%), due 1999–2027*	55,000	**51,705**	53,940
1995 Series B (4.4% to 6.45%), due 1999–2028*	30,000	**27,945**	28,380
1995 Series C (4.3% to 7.25%), due 1999–2027*	30,000	**25,245**	27,025
1995 Series D (4.25% to 6.15%), due 1999–2027*	16,800	**13,190**	16,710
1996 Series A (4.25% to 7.2%), due 1999–2027*	41,000	**37,640**	40,690
Series 1996 B (4.4% to 7.55%), due 1999–2028*	29,060	**25,210**	28,205
1996 Series C (4.25% to 7.45%), due 1999–2028*	32,925	**29,850**	32,925
1996 Series D (4.2% to 7.1%), due 1999–2028*	46,640	**41,345**	46,640
1997 Series A (4.2% to 7.23%), due 1999–2029*	50,000	**48,065**	64,715
1997 Series A-4 (4.15% to 5.65%), due 2000–2029*	10,000	**10,000**	–
1997 Series B (4.05% to 6.85%), due 1999–2029*	64,500	**63,775**	–
1997 Series C (4.15% to 6.85%), due 1999–2029*	55,625	**55,625**	–
Draw Down Series 1998 (4.73%), due 1999	31,500	**27,900**	–

4. Bonds Payable (continued)

Bonds Payable	Original Amount Authorized	Outstanding June 30 1998	1997
		(In Thousands)	
Single-Family Mortgage Program (continued):			
Series 1998B (4% to 6.4%), due 1999–2030*	$ 70,000	**$ 70,000**	$ –
Series 1998C (3.9%), due 1999	38,565	**38,565**	–
Draw Down Series 1998B (4.75%), due 1999	100,000	**2,595**	–
	2,028,135	**1,050,105**	931,183
Less – unamortized debt discount		**(2,599)**	(3,394)
Add – unamortized debt premium		**13,572**	8,716
		1,061,078	936,505
Total	$2,428,141	**$1,307,375**	$1,208,281

The proceeds of bond issues denoted by "*" are used to purchase GNMA mortgage-backed securities, which are backed by mortgage loans originated through the Commission's loan programs.

The proceeds of bond issues denoted by "**" are used to provide financing for multifamily housing projects. These bonds are limited obligations of the Commission, payable solely from and secured by a loan agreement between the Commission and the borrower.

All bonds have early redemption provisions. A summary of future annual scheduled principal maturities, which excludes unamortized debt discount and premium, follows *(in thousands)*:

Bonds Maturing During Year Ending June 30	
1999	$ 85,685
2000	18,845
2001	19,840
2002	20,570
2003	20,290
Thereafter	1,131,979
	$1,297,209

4. Bonds Payable (continued)

During the current year, the Commission sold $22,535,000 in single-family mortgage loans recognizing a gain approximating $248,000. The sale proceeds were used to purchase U.S. government securities which were deposited in a trust with an escrow agent to provide for all future debt service payments and early redemption of the Single-Family January 15, 1979 and May 15, 1979 Series Bonds. As a result, the January 15, 1979 and May 15, 1979 Series Bonds are considered to be defeased, and the liability for those bonds has been removed from the Commission's balance sheet. Prior to June 30, 1998, the January 15, 1979 and May 15, 1979 Series Bonds have been fully redeemed by the funds placed in the escrow trust.

In addition to bonds payable, the Commission has available two lines of credit totaling $5,050,000 and $1,108,000. At June 30, 1998, these lines of credit had outstanding balances of $4,483,000 and $1,046,000, at interest rates of 7.27% and 7.02%, and are due September 2010 and January 2012, respectively.

5. Escrow Deposits and Rent Subsidies Payable

Escrow deposits represent funds paid by project developers for real estate taxes, insurance, future replacements of property and other costs.

Rent subsidies payable represent funds received from HUD for payment of rent subsidies to participants in the HUD Section 8 Housing Assistance Program.

Such funds held by the Commission are included in cash and temporary cash investments.

6. Pension Plan

All Commission employees participate in the Missouri State Employees' Plan (MSEP) administered by the Missouri State Employees Retirement System (the System), a single-employer public employee retirement plan. MSEP provides retirement, death and disability benefits to its members. As established by Missouri statutes, responsibility for the operation and administration of MSEP is vested in the Missouri State Employees Retirement System Board of Trustees. The System issues a publicly available financial report that includes financial statements and required supplementary information for MSEP. That report may be obtained by writing to the Missouri State Employees Retirement System, 906 Leslie Boulevard, P.O. Box 209, Jefferson City, Missouri 65101, or by calling 1-800-827-1063.

6. Pension Plan (continued)

Covered employees do not contribute toward the plan. The employer is required to contribute at an actuarially determined rate. The contribution requirement for the years ended June 30, 1998, 1997 and 1996 was $311,000, $303,000 and $277,000, respectively; these contributions represented 11.7%, 12% and 12.7% of total payroll during 1998, 1997 and 1996, respectively. These contributions are expensed by the Commission when incurred.

As determined in accordance with GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," the Commission has no pension liability, as required contributions are paid when due. This treatment is consistent with prior years.

7. Restrictions and Commitments

Resolutions of the Commission require that, to the extent funds are available in the general account of each bond fund, they are to be transferred to a debt service account on a periodic basis, from the date of bond issuance to the date of each succeeding maturity, sufficient to make principal and interest payments on the bonds as they become due. Funds within the general account of each bond fund are on deposit in restricted accounts.

In addition, the statute and resolutions of the Commission require that for certain bond issues an amount be maintained in reserve accounts to be used to make principal and interest payments on payment due dates. Such amounts are on deposit in restricted accounts for the various issues within the Multifamily and Single-Family Mortgage Programs.

Below is a summary of the amounts restricted at June 30, 1998 and 1997:

	1998	**1997**
	(In Thousands)	
Cash and temporary cash investments	**$ 8,374**	$ 15,465
Investments	**335,120**	293,060
Accrued interest receivable	**11,500**	11,200
	$354,994	$319,725

7. Restrictions and Commitments (continued)

Included in the above restricted amounts, $30,307,000 and $28,281,000 at June 30, 1998 and 1997, respectively, are held as escrow deposits, and $155,249,000 and $125,402,000, respectively, are restricted for making or purchasing mortgage and construction loans.

Pursuant to certain of its resolutions, the Commission has restricted the fund balances of the Multifamily Mortgage Program and the Single-Family Mortgage Program to maintain a level of reserves necessary to provide sound fiscal operations. In addition, through various resolutions for the Multifamily Mortgage Program, the Single-Family Mortgage Program and activities of the Operating Fund, the Commission has reserved internally generated funds for financing residential housing units and for providing rental housing assistance, which are included in restricted fund balances. In 1997, the Commission acquired a portfolio of loans from HUD. Revenues collected from these HUD purchased loans are restricted by an agreement between the Commission and HUD to be used primarily for rehabilitation loans or grants.

Pursuant to state statute, the Commission has restricted the amount of fund balance representing revenues over expenses related to the financial activity of the Missouri Housing Trust Fund. The Missouri Housing Trust Fund was created by Section 215.035 of the Missouri statutes. Revenues of the Missouri Housing Trust Fund are restricted to programs which financially assist, by loans or grants, the development of housing stock and which provide housing assistance to persons and families with incomes at or below specified levels. In accordance with requirements of the Governmental Accounting Board Standards, the Missouri Housing Trust Fund's financial activities are included in the financial statements of the Commission.

7. Restrictions and Commitments (continued)

Below is a summary of restricted fund balances by the Commission, bond resolution and state statute as of June 30, 1998 and 1997:

	1998	1997
	(In Thousands)	
Restricted by Commission:		
Tenant assistance	**$ 44,989**	$ 43,647
Loans not funded by a bond sale	**73,174**	80,649
Loan commitments not yet disbursed	**20,538**	22,574
Reserves committed to Home Improvement and Multifamily interest subsidy program	**5,799**	5,799
Restricted earnings of HUD purchased loans	**2,993**	1,514
Unamortized bond premiums/discounts and financing costs, net of deferred commitment fees	**2,449**	8,525
	149,942	162,708
Restricted by bond resolution	**53,076**	45,597
Restricted by state statute – Missouri Housing Trust Fund	**5,783**	5,043
	$208,801	$213,348

The Commission does not intend to liquidate any investments or mortgage-backed securities to realize the reported gains, but rather intends to hold such securities to fulfill the Commission's mortgage housing programs. Accordingly, the Commission has designated fund balance for the amount of net unrealized gains, as these funds are not available for expenditures.

7. Restrictions and Commitments (continued)

The Commission is in a 10-year lease for office space. This lease, which is accounted for as an operating lease, can be extended at the option of the Commission for two successive five-year periods. Lease expenditures for the years ended June 30, 1998 and 1997 were $349,000. Future minimum lease payments for this lease are as follows *(in thousands)*:

Year ending June 30	
1999	$ 349
2000	349
2001	349
2002	349
2003	349
Thereafter	902
	$2,647

8. Contingencies

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Commission carries commercial insurance.

9. Subsequent Event

Prior to June 30, 1998, the Commission approved Missouri Housing Development Commission Single-Family Mortgage Revenue Bonds (Homeownership Loan Program), 1998 Series D, totaling $70,000,000. These bonds were issued in July 1998.

10. Impact of Year 2000 (Unaudited)

The year 2000 issue is a result of computer programs being written using two digits rather than four to define the applicable year. The year 2000 issue may significantly and adversely affect the integrity and reliability of information data bases and may result in a wide variety of adverse consequences to an organization. In addition, year 2000 problems may occur with third parties with which an organization does business, such as computer vendors, service providers and others.

10. Impact of Year 2000 (Unaudited) (continued)

The Commission has developed its "Year 2000 Information Technology Report and Plan" to assist in addressing year 2000 issues. The plan addresses the following major areas: hardware, software, external business partners and other noninformation system areas. With respect to hardware and operational software, the Commission is in the process of converting existing systems to year 2000 compliant systems. Accounting software has been updated to address year 2000 issues and is being tested to validate processing and year 2000 readiness. The Commission is establishing a plan and assessing year 2000 issues related to its external business partners and non-IT processes. There is no guarantee that the systems of other organizations on which the Commission relies will be timely converted and would not have an adverse effect on the Commission's operations.

During the current year, the Commission incurred expenses of $100,000 to update software, systems and other computer equipment. The Commission has budgeted $924,000 during fiscal year 1999 for further system updates that will incorporate year 2000 compliance. All software, systems and other computer equipment replaced or updated during the current year is year 2000 compliant.